

Message Text

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PAGE 01 PHNOM 09763 240728Z

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ACTION EA-07

INFO OCT-01 ISO-00 IGA-02 FBO-01 A-01 M-02 L-03 /017 W

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R 240612Z JUL 74

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 7025

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ALSO FOR EA/EX AND FBO

E.O. 11652: N/A

TAGS: EAID, CB, AFBO, AFSP

SUBJECT: ACQUISITION OF REAL PROPERTY

REF: (A) IGA MEMORANDUM "MANAGEMENT OF U.S. OWNED LOCAL CURRENCIES",

NOVEMBER 26, 1973 FROM MR. FREDERICK E.H. RUEHN TO
MR. JOSEPH S. BROWN, ACTING INSPECTOR GENERAL, OFFICE
OF THE INSPECTOR GENERAL OF FOREIGN ASSISTANCE
(A COPY OF THIS MEMORANDUM WAS SENT ON NOVEMBER 30,
1973, TO MR. ARTHUR HUMMEL, THEN ACTING ASSISTANT
SECRETARY FOR EAST ASIAN AND PACIFIC AFFAIRS).

(B) PHNOM PENH 14560 DECEMBER 30, 1973

(C) PHNOM PENH 1927, FEBRUARY 8, 1974

(D) LETTER DTD DECEMBER 31, 1973, TO MR. ERNEST J. COLANTONIO
FROM CURT SMITH, ADMINISTRATIVE OFFICER

1. REFERENCE (A) SUGGESTED THAT THE SUBSTANTIAL U.S. HOLDINGS OF
CAMBODIAN RIELS GENERATED UNDER THE PL-480 PROGRAM COULD BE
ADVANTAGEOUSLY USED TO ACQUIRE BOTH OFFICE AND RESIDENTIAL PRO-
PERTIES IN PHNOM PENH, AND THAT THESE PURCHASES WOULD EVENTUALLY
RESULT IN MARKED SAVINGS TO THE U.S. GOVERNMENT. REFERENCE (D)
TRANSMITTED A LIST OF PROPERTIES, AMONG THEM THE AMBASSADOR'S
RESIDENCE, WHICH IT WAS FELT MERITED CONSIDERATION FOR ACQUISITION.
SUBSEQUENTLY THE EMBASSY WAS INFORMED BY THE DEPARTMENT THAT
NONE OF THESE PROPERTIES WERE INCLUDED ON THE LIST OF THOSE RE-
COMMENDED FOR PURCHASE.

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PAGE 02 PHNOM 09763 240728Z

2. THE EMBASSY STRONGLY ENDORSED THE IGA RECOMMENDATION AT THE

TIME IT WAS MADE AND CONTINUES TO FEEL THAT THE PROPOSAL HAS GREAT MERIT. AT PRESENT THE TOTAL HOLDINGS OF CAMBODIAN RIELS WHICH MAY BE USED FOR U.S. DESIGNATED PROJECTS EXCEED THE EQUIVALENT OF 36 MILLION DOLLARS, WHICH AT THE PRESENT RATE OF EXCHANGE AND OF EXPENDITURES IS WELL OVER 21 YEARS' SUPPLY. IT WOULD CERTAINLY SEEM ADVANTAGEOUS TO EMPLOY A PORTION OF THIS AMOUNT TO PURCHASE REAL PROPERTY TO THE EXTENT OF MEETING OUR LONG-TERM MINIMAL NEEDS.

3. THERE ARE OTHER INCREASINGLY COMPELLING REASONS WHY WE SHOULD PROCEED TO PURCHASING PROPERTY. MANY OF THE LEASES FOR PROPERTIES WHICH WE NOW RENT WERE NEGOTIATED WELL OVER TWO YEARS AGO WHEN THE RATE OF EXCHANGE WAS AS LOW AS 55 RIELS TO ONE DOLLAR. AT THE PRESENT RATE OF EXCHANGE OF 418.32, A PROPERTY WHICH RENTED AT THE TIME FOR THE EQUIVALENT OF DOLS 300 PER MONTH IS NOW BEING RENTED FOR THE SUM OF APPROXIMATELY DOLS 40. THIS IS AT A TIME WHEN, BECAUSE OF ECONOMIC UNCERTAINTY, THE WAR, AND INFLATION, MOST LANDLORDS ARE DEMANDING AND GETTING PAYMENTS IN US DOLLARS AND IN SUBSTANTIAL AMOUNTS. NEEDLESS TO SAY, OUR POLICY OF NOT ADJUSTING THE RENTAL PAYMENTS TO TAKE INTO CONSIDERATION THE RISE IN THE RATE OF EXCHANGE AND INFLATION HAS NOT ENDEARED US TO OUR LANDLORDS. FIVE STATE LEASES WILL EXPIRE THIS FISCAL YEAR (INCLUDING THE LEASE ON THE AMBASSADOR'S RESIDENCE), AND APPROXIMATELY 27 LEASES WILL EXPIRE NEXT FISCAL YEAR. IF WE ARE TO RETAIN UNDER LEASE RENEWALS SOME OF THESE PROPERTIES, WE ARE GOING TO HAVE TO PAY DEARLY FOR THE YEARS WE HAVE HELD THE LANDLORDS TO THE RENTAL TERMS.

4. TO FURTHER COMPOUND THE PROBLEM, IN LEASES WHICH WE HAVE RECENTLY NEGOTIATED THE ONLY SATISFACTORY COMPROMISE TO ACTUALLY PAYING US DOLLARS HAS BEEN TO SET THE RENT IN RIELS AT THE PREVAILING EXCHANGE RATE EQUIVALENT TO THE US DOLLAR FIGURE DEMANDED AND TO MODIFY THE RIEL AMOUNT WHEN THE EXCHANGE RATE CHANGES. THE LANDLORD STILL WANTS DOLLARS. HE WILL SET HIS RENT IN RIELS AT THE BLACK MARKET RATE WHILE THE EMBASSY IS FORCED TO PURCHASE RIELS WITH DOLLARS AT THE OFFICIAL RATE. SINCE THE BLACK MARKET RATE IS CLOSE TO THREE TIMES THE OFFICIAL RATE, A HOUSE FOR WHICH A LANDLORD WANTS DOLS 300 PER MONTH IN GREEN WILL COST US THE EQUIVALENT OF DOLS 900, PLUS, OF COURSE, AN AMOUNT WHICH THE LANDLORD WILL WANT TO COMPENSATE FOR HIS ANTICIPATED LOSSES LIMITED OFFICIAL USE

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PAGE 03 PHNOM 09763 240728Z

FROM FUTURE INFLATION AND OVER-EVALUATION OF THE RIEL. WE ARE THUS IN THE VERY IMMEDIATE FUTURE GOING TO SEE AN ASTOUNDING RISE IN THE COST OF LEASEHOLDS IN PHNOM PENH, WHICH PROVIDES A FURTHER COGENT REASON FOR PURCHASING VERSUS LEASING.

5. AT A MINIMUM WE ARE THINKING IN TERMS OF PURCHASING A CHANCERY, AN AMBASSADOR'S RESIDENCE AND A DCM RESIDENCE ALTHOUGH AT THIS STAGE WE DO NOT HAVE ANY PROPERTIES SPECIFICALLY IN MIND. WHEREAS

RESIDENCES FOR THE AMBASSADOR AND DCM COULD PROBABLY BE PURCHASED OUTRIGHT, THE CHANCERY WOULD MOST PROBABLY HAVE TO BE CONSTRUCTED, WHICH WOULD INVOLVE DOLLAR IN ADDITION TO RIEL EXPENDITURES.

6. AT THIS STAGE WE WOULD APPRECIATE THE DEPARTMENT'S VIEWS AS TO THE FEASIBILITY OF PURSUING THIS MATTER FURTHER. WE WOULD ALSO APPRECIATE SOME GUIDANCE AS TO WHAT THE MECHANICS AND THE TIME-TABLE WOULD BE. IF THERE IS A STRONG POSSIBILITY THAT THIS COULD BE ACCOMPLISHED WE WOULD BEGIN NOW TO EXPLORE POSSIBLE BUILDING SITES. PLEASE ADVISE.
DEAN

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